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Chief Executive Officer

May 19, 2011

To: Mayor Michael D. Antonovich
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From: William T Fujioka
Chief Executive Officer

SACRAMENTO UPDATE – GOVERNOR'S FY 2011-12 MAY REVISION ANALYSIS

Overview

On May 16, 2011, Governor Jerry Brown released his May Revision to the FY 2011-12 State Budget, which continues to emphasize for a balanced approach between budget cuts and revenue solutions to address the State's ongoing structural budget deficit. The estimated $13.4 billion in budget solutions adopted by the Legislature and signed by the Governor in March, combined with $6.6 billion in higher than anticipated personal income tax and capital gains revenues, have allowed the Administration to reduce the projected budget deficit from $26.6 billion, as reported back in January, to an estimated $9.6 billion through the end of FY 2011-12. The Governor's plan proposes $10.8 billion in budgetary solutions to address the $9.6 billion deficit and establish a $1.2 billion year-end reserve through June 30, 2012.

May Revision Budget Solutions

The Governor's May Revision contains $10.8 billion in solutions to address the remaining budget gap, as follows: 1) additional expenditure reductions ($2.26 billion); 2) revenue solutions which primarily consist on the continuation of existing tax increases set to expire this year ($9.32 billion); and 3) various adjustments to special funds and fund shifts (-$0.75 billion).

Perhaps the most critical element of the Governor's May Revision is the need for the Legislature to approve his proposed ballot measure to allow California voters to consider the continuation of an estimated $8.6 billion in tax extensions for a five-year period starting in FY 2011-12. According to the Administration, revenues generated from the proposed tax extensions would be used to ratify a plan that preserves core services, including:

- **Realignment of State Programs to Counties.** The May Revision proposes to retain the Governor's January Realignment Proposal to transfer $5.6 billion in State fiscal and program responsibilities to counties for various public safety, mental health, public health, child welfare services, foster care and adult protective services programs; and

- **Protecting Education Funding.** The May Revision proposes increased funding for K-12 Education consistent with Proposition 98 requirements.

Other major solutions included in the Governor's May Revision include: 1) not pursuing a personal income tax surcharge for 2011; 2) elimination of the State Departments of Mental Health and Alcohol and Drug Programs; 3) elimination of 43 State boards, commissions, and task forces, including the Managed Risk Medical Insurance Board and the California Medical Assistance Commission; 4) merging the Healthy Families Program into the Medi-Cal Program; and 5) reduction of over 5,000 State positions, among others.

Estimated County Impact

Based on a preliminary analysis of the information available at this time, we estimate the overall impact from the March 2011 State Budget actions and the Governor's May Revision will be an estimated County loss of $366.2 million in FY 2011-12.

Attachment I illustrates the impact of the State Budget actions enacted in March 2011 and the Governor's May Revision proposals affecting County programs.

Attachment II is a detailed analysis of the May Revision proposals of interest to the County.

Revised Realignment Proposal

The May Revision continues to call for a Realignment Proposal, which would take effect in FY 2011-12 and it would shift $5.6 billion in program responsibilities from the State to counties, instead of the $5.9 billion proposed in the January Realignment Proposal. The shift would be funded for five years with the proposed extension of the 1.0 percent sales tax increase ($4.52 billion) and a 0.4 percent Vehicle License Fee increase ($1.08 billion). No new programs are being added to the Governor's Realignment Plan; however, the following four programs are no longer proposed for realignment: 1) AB 3632 mental health services; 2) fire protection; 3) select public safety mandates; and 4) training programs.

Programs Removed from the Realignment Proposal

AB 3632 Program. Proposes to shift AB 3632 mental health services from counties to schools and provides an increase of $221.8 million from the State General Fund to shift the responsibility, including out-of-state residential care services. The May Revision also reflects the permanent repeal of the AB 3632 mandate on counties and removes mental health services from the January Realignment Proposal. In addition, it also proposes a $68.0 million decrease in FY 2011-12 to reflect a shift in responsibility of funding for Seriously Emotionally Disturbed children residential care placements from the State Department of Social Services to schools.

Fire Protection Services. The May Revision calls for the removal of Fire Protection services from the January Realignment Proposal. Previously, the proposal called for the realignment of Fire Protection services to those areas where the State contracted with local governments.

State Penalty Funds Subventions to Locals and Public Safety Mandates Programs. The May Revision removes these two program areas, totaling $91.4 million, from the January Realignment Proposal because of the complicated reimbursement processes, which made shifting them inefficient. These funds were used for peace officer training and were administered by both the Peace Officer Standards and Training Commission and the Corrections Standards Authority which employed numerous different reimbursement methodologies for cities and counties with varying amounts received each year.

Other Changes to the Realignment Proposal

Local Jurisdiction of Lower-Level Offenders and Parole Violators. The May Revision provides additional resources for these two programs in the amount of $44.6 million, thereby increasing the total distributed to local governments to $460.2 million. After consultations with local public safety officials, District Attorneys and Public Defenders, the Governor's office concluded that more resources would be needed for the additional workload. How these funds will be divided between these two programs will change overtime, as fewer parolees will be coming through the system in the later years and more resources will be dedicated to supervision and treatment than legal costs for parole revocation hearings.

Local Public Safety Grants. The May Revision reduces the previous allocation of $506.4 million by $2.0 million, which previously went to State public safety agencies, for a new total of $504.4 million. These funds are derived from the Vehicle License Fee. The County's allocation is approximately $137.1 million for the following programs: Juvenile Probation; Citizens Option for Public Safety Program; Juvenile Justice Crime Prevention Act; various public safety program grants; and Jail Booking Fee Subventions.

Court Security. The May Revision proposes additional resources in the amount of $2.5 million to be allocated for courts to address the added costs associated with parole revocation hearings. Additionally, an inflation factor of 2.2 percent has been applied to the proposed amount resulting in a new total allocation of $497.8 million. If allocations remain unchanged, the County would receive approximately an estimated $164.3 million for Court Security.

This office is working with affected departments and will provide an updated analysis of the revised Realignment Proposal once additional detailed information is available from the Administration.

Redevelopment Proposal

The May Revision maintains the Governor's January Budget proposal to fund economic development activities at the local level and to phase out the existing funding mechanism for Redevelopment Agencies (RDAs). According to the Administration, the proposal will return billions in property tax revenues to schools, cities, and counties to help sustain core functions including law enforcement, fire protection, and education. Major elements of the Governor's proposal include:

- An estimated $1.7 billion would be used to offset State General Fund costs for Medi-Cal and trial courts, and existing property tax revenue would continue to be used for RDA debt service and for core services provided by local governments in FY 2011-12.

- Property tax revenues in excess of RDA debt service would be distributed on an on-going basis to schools, counties, cities and non-enterprise special districts beginning in FY 2012-13. These distributions will generally reflect the distribution of property tax in each county under existing law.

- Increased property tax revenues would flow to local governments as existing RDA debt is retired.

- Amend the Constitution to provide for 55.0 percent voter approval for limited tax increases and bonding against local revenues for development projects such as are currently done by RDAs.

We will continue to keep you advised.

WTF:RA
MR:IGEA:sb

Attachments

c: All Department Heads
Legislative Strategist
Local 721
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations
Buddy Program Participants

Attachment I

ESTIMATED IMPACT TO LOS ANGELES COUNTY FROM THE FY 2011-12 STATE BUDGET PROPOSALS

	March 2011 Adopted State Budget	Governor's May Revision Proposals	Overall Potential County Impact
Health			
Medi-Cal Provider Payments Reduction	(10,000,000)	0	(10,000,000)
Medi-Cal Share of Cost for Services	(10,000,000)	0	(10,000,000)
Medi-Cal Waiver	0	(12,000,000) (1)	(12,000,000)
Medi-Cal Managed Care Plan Reduction	0	(12,000,000)	(12,000,000)
Mental Health			
Redirection of Mental Health Services Act Funds (2)	(241,100,000)	0	(241,100,000)
Social Services			
CalWORKs Single Allocation Proposals	(129,800,000)	24,000,000	(105,800,000) (3)
CalWORKs Program Reductions	5,198,000 (4)	(648,000)	4,550,000
IHSS Program Reductions	55,100,000 (5)	0	55,100,000
LEADER Replacement System Suspension	0	(26,200,000)	(26,200,000)
Child Support Services Collections Suspension	(10,800,000) (6)	0	(10,800,000)
Senior Employment Program Reduction	(1,100,000) (7)	0	(1,100,000)
Foster Care Rate Increase	0	(4,970,000)	(4,970,000)
Public Safety			
Community Corrections Performance Incentive Grants (SB 678)	0	28,600,000	28,600,000
General Government			
Delay of Deferred Mandate Payments (Prior to FY 2004-05)	0 (8)	(12,900,000) (8)	(12,900,000)
Suspension of Most SB 90 Mandate Claims	0 (8)	(5,800,000) (8)	(5,800,000)
Public Library Funds	0 (8)	(1,000,000) (8)	(1,000,000)
Elimination of State Funds for Military and Veterans Programs	0	(360,000)	(360,000)
Agricultural Commissioner/Weights and Measures	0 (8)	(500,000) (8)	(500,000)
TOTAL	**($342,502,000)**	**($23,778,000)**	**($366,280,000)**

Notes:

(1) According to the Department of Health Services, the cost to the County from this proposal could range from $0 to $12.0 million.
(2) Estimate reflects the redirection of funds that would have been available to the County for Proposition 63 mental health services.
(3) Estimate reflects Single Allocation reduction carried over from 2010 State Budget Act ($114.2 million) and new Single Allocation reduction ($15.6 million), and the May Revision proposal to increase Single Allocation ($24.0 million).
(4) Estimate does not include the Governor's Revised Realignment Proposal to transfer $1.077 billion statewide in 1991 Realignment revenue to fund the State's portion of increased county share of cost for CalWORKs grants, from 2.5 percent to 40.0 percent.
(5) IHSS Program Reductions include savings from: Elimination of services for recipients without physician certification and increase in FMAP from Community First Choice Options. Savings from Medication Dispensing Pilot Project is unknown at this time.
(6) Estimate reflects $3.62 million in State recoupment collections and Federal match of $7.2 million.
(7) Estimate reflects one-time only Federal funding, resulting in the elimination of about 115 slots for employment services for seniors.
(8) Represents proposals that were previously approved by the Legislature as part of SB 69 (Leno) and various Trailer Bills which are pending signature by the Governor. These proposals are being considered as part of Governor's May Revision.

This table represents the estimated loss/gain of State funds based upon the March 2011 State Budget actions and Governor's May Revision proposals. It does not reflect the actual impact on the County or a department which may assume a different level of State funding or be able to offset lost revenue.

Attachment II

MAY REVISION PROPOSALS

Health

Medi-Cal Managed Care Plan Reduction. The May Revision proposes a $34.2 million reduction in the State's share of Intergovernmental Transfers in FY 2011-12 because of increased reimbursements received from the Medi-Cal managed care plan for counties. Under the proposal, the State would assess a fee equal to 20.0 percent of the transferred funds and the remaining funds would be used to match Federal funds to provide rate increases. **The Department of Health Services (DHS) estimates that this proposal would cost the department approximately $12.0 million in FY 2011-12.**

Medi-Cal Waiver. The May Revision proposes a $95.2 million reduction in the Medi-Cal Waiver for FY 2010-11 by identifying additional options for the State to claim Waiver funds. The State Department of Health Care Services indicates that the recently approved Waiver provides for up to $400.0 million in potential savings to the State annually. **DHS indicates that it cannot calculate the impact until cost reports for FY 2010-11 are finalized by all public hospital counties. However, DHS estimates that the impact to the County could be up to $12.0 million.**

Healthy Families Shift to Medi-Cal. The May Revision proposes a $77.6 million increase for the Medi-Cal program by shifting Healthy Families participants to Medi-Cal, which results in a net savings of $31.2 million to the State's General Fund in FY 2011-12. The proposal would implement an earlier Medicaid expansion for children up to 133.0 percent of the Federal Poverty Level required under Federal health care reform. It is uncertain if these children will remain with their current health plan, or if they will have difficulty in finding a Medi-Cal provider because of low reimbursement rates. **The Department of Public Health (DPH) indicates that the programmatic shift will not have a direct impact on DPH; however, some contracted programs could see increased demands for case management and other services. DHS is unable to determine the exact impact at this time but expects it to be minimal.**

Hospital Provider Fee. The May Revision proposes $320.0 million in savings to the Medi-Cal program by extending the Hospital Provider Fee for one year through June 30, 2012. **DHS indicates no impact to the Department; however, the State will continue to receive $80.0 million per quarter from the Hospital Provider Fee.**

Mental Health

AB 3632 Mental Health Services. The May Revision proposes to shift AB 3632 mental health services from counties to schools, and provides an increase of $221.8 million from the State General Fund to shift the responsibility, including out-of-state residential services. The May Revision reflects the permanent repeal of the AB 3632 mandate on counties and removes the AB 3632 Program from the January Realignment Proposal. **The Department of Mental Health supports this proposal because it reinforces the Federal mandate that schools bear the responsibility for the mental health services provided to Seriously Emotionally Disturbed (SED) children. Counties have not been consistently reimbursed by the State for providing these mental health services.**

The May Revision also proposes a $68.0 million decrease in FY 2011-12 to reflect a shift in responsibility of funding for SED residential care placements from the State Department of Social Services to schools. **The Department of Children and Family Services indicates that the County's share of the $68.0 million statewide decrease is $18.4 million, which includes a $10.6 million County match to draw down this State revenue.**

Mental Health Services Act Funds. The May Revision proposes that $98.6 million in Mental Health Services Act funds (Proposition 63) continue to be provided to county mental health agencies on a one-time basis in FY 2011-12 for the AB 3632 Program.

Although the program would no longer be realigned to counties, school districts would be able to contract with counties to provide services using Proposition 63 funds, but schools would be responsible for costs exceeding that amount. In total, the May Revision provides $389.4 million from all funding sources, including $69.0 million in Federal funds already budgeted for mental health services. **The Chief Executive Office and the Department of Mental Health are working to determine the impact of this proposal.**

<u>**Public Health**</u>

Immunization Funding Partial Restoration. The May Revision proposes a $7.3 million increase in the State General Fund for FY 2011-12 for a partial restoration of immunization funding. This increase would restore funding for influenza vaccine purchases for local health departments to provide flu vaccinations for the elderly and other at-risk Californians. **DPH estimates that this proposal would increase the County's funding allocation for the influenza vaccine for the FY 2012-13 flu season.**

Licensing and Certification Contract Extension for the County. The May Revision provides a one-year extension of the licensing and certification contract with Los Angeles County. During this timeframe, the State Department of Public Health will decide whether to maintain this arrangement with the County or transfer the function to the State. **DPH indicates that this proposal continues an existing agreement and no adverse impact is anticipated.**

Social Services

LEADER Replacement System. The May Revision proposes to indefinitely suspend the Los Angeles Eligibility, Automated Determination, Evaluation and Reporting (LEADER) replacement system for a State General Fund savings of $26.2 million. This project, which is in the planning and procurement phase, will replace the current LEADER system for eligibility and benefit determination for CalWORKs, CalFresh, Medi-Cal and other social services programs. **This proposal would result in a County loss of $26.2 million in State General Funds.**

According to the Department of Public Social Services (DPSS), the indefinite suspension of the replacement system jeopardizes Los Angeles County efforts to continue meeting the automation needs for issuing CalWORKs, CalFresh, Medi-Cal, General Relief and several other benefits when the current LEADER contract expires in March 2015. As a result, there would be substantial risk to the timely and accurate delivery of Medi-Cal benefits and over $3.0 billion in annual cash and CalFresh benefits to more than 2.4 million beneficiaries in Los Angeles County.

In addition, Department of Public Social Services indicates that the suspension of the replacement system would subject the County and its residents to significant risk and forsakes years of investment and effort, which have resulted in the most viable solution to continue delivering timely and effective services. The LEADER replacement system will resolve several major issues, including outdated technology, capacity limitations, cost-effectiveness, and timely implementation of regulatory changes. **Therefore, consistent with your Board motion of May 17, 2011, the Chief Executive Office, the Chief Information Office and the Department of Public Social Services will work with the County's Legislative advocates in Sacramento to explain to the Administration that any delay to the LEADER replacement system will have a negative impact on the 2.4 million people in Los Angeles County for timely delivery of benefits.**

CalWORKs Program. The May Revision projects an adjustment in CalWORKs grants and services above the amounts reflected in the March Adopted Budget. Specifically, statewide grant expenditures are estimated to increase by $86.0 million in FY 2011-12. Additionally, CalWORKs Single Allocation, which funds eligibility administration, employment services and CalWORKs Stage One Childcare, is estimated to increase by approximately $77.0 million statewide. These projected increases are due to the Administration's revised higher caseload and cost per person assumptions, as well as eroded savings due to delayed implementation of the budget reductions adopted in March. DPSS is currently working to verify the Administration's estimation methodologies and assumptions. If the Administration's projections materialize, in FY 2011-12, there could be an increase of $25.9 million in grant expenditures to the CalWORKs families in the County. **DPSS estimates that this action would result in an estimated net County cost of $648,000. Additionally, the County could receive an additional $24.0 million in Single Allocation funding in FY 2011-12.**

CalFresh County Administration. The May Revision proposes a statewide increase of $47.7 million (includes $17.2 million in State General Fund) in County CalFresh Administration funding in FY 2011-12 above the March Adopted Budget. This increase is due to the Administration's revised higher caseload estimates. Under current law, counties receive the full State General Fund allocation without the requirement to pay the counties' share above the Maintenance of Effort. **According to DPSS, the County may receive its estimated $4.8 million share of the proposed State General Fund increase, as well as the corresponding Federal share ($4.8 million) for a total increase to the County of $9.6 million.**

Foster Care Rate Increase. The May Revision proposes a $41.3 million total increase for FY 2011-12 to fund payment rate increases for foster care family homes, as well as prospective Adoption Assistance Payment, Kinship Guardianship Assistance Payment and Non-Related Legal Guardian payment rates, pursuant to the *Foster Parent Association, et al. v. John A. Wagner, et al.* court case. The proposed total increase of $41.3 million would be funded as follows: $16.4 million (Federal), $10.7 million (State), and $14.2 million (counties). **Based on the counties impact of $14.2 million, the Department of Children and Family Services indicates that the estimated cost increase to the County would be $4.97 million. Furthermore, the impact on waiver counties could be greater if the Federal government does not increase the County's capped waiver allocation to adjust for the rate increase.**

Proposition 10. The May Revision does not include the proposed $1.0 billion in Proposition 10 (the California Children and Families Program) savings. Although the Legislature adopted the Governor's proposal to transfer $1.0 billion in Proposition 10 dollars with the passage of AB 99 of 2011, to fund health services for children, the May Revision does not include the proposed $1.0 billion in savings because of ongoing litigation. However, the Governor did not restore the $1.0 billion to county commissions because he also stated that the Administration will continue to defend AB 99, which requires county commissions to remit to the State $950.0 million by June 30, 2012.

According to the First 5 Association of California, counties are in a difficult position because they are still legally required to make the funds available to the State, which could result in cuts to current contracts, even though the State will not use the funds in FY 2011-12.

Child Care and Development Programs. The May Revision retains the Governor's January Budget Proposal of $716.0 million in funding reductions to child care and development services, and proposes a further reduction of $97.2 million. The May Revision also retains the Governor's proposals to: 1) eliminate subsidized services for 11 and 12 year old children in traditional hours; 2) the reduction of eligibility for subsidized child development services from 75.0 percent to 70.0 percent of the State median income; 3) an adjustment in family fees; and 4) the implementation of a 15.0 percent across the board reduction for all programs except CalWorks Child Care Stages 1 and 2.

The May Revision also proposes the elimination of the Early Learning Advisory Committee, which was created to develop a statewide child care quality rating and improvement system; the elimination of the Centralized Waiting List, which is the registry of families eligible for subsidized services; and a 10.0 percent reduction to the child care Standard Reimbursement Rate.

Justice and Public Safety

Community Corrections Performance Incentive Grants (SB 678 2009). The May Revision proposes an increase of $30.0 million, for a total of $89.0 million in FY 2011-12, from the State General Fund for the California Community Corrections Performance Act. The act established a system of performance-based funding that share State General Fund savings with county probation departments when they demonstrate success in reducing the number of adult felony probationers going to State prison for committing new crimes or violating the terms of probation. The Governor notes that as of May 2011, 6,200 felony probationers were successfully kept out of state prison, because of this program. **The Probation Department estimates that County will receive approximately $28.6 million in FY 2011-12 and $7.1 million in FY 2012-13 for Performance Incentive Grants for a total of $35.7 million total earned in the 2010 performance year.**

Additionally, the Probation Department indicates that the May Revision estimates of $89.0 million in State General Fund for the California Community Corrections Performance Act are based on a proposed amendment to SB 678 that would change the formula for calculating a county's baseline failure rate from a "straight" average of calendar years 2006 to 2008, to a "weighted" average for the same time period, giving additional "weight' to more recent years. If the Governor's proposed amendment to change the method of calculating the incentive payments for performance is not approved by the Legislature, but rather the original calculation method is maintained, incentive payments to LA County for calendar year 2010 could increase by up to $15.0 million, from approximately $35.0 million to $50.0 million. SB 678 payments for subsequent years could also be increased by a similar percentage.

General Government

State Mandates. The May Revision retains the Governor's January Budget proposal to maintain suspension of $227.8 million in mandates not related to law enforcement or property taxes. Additionally, it maintains the deferral of $94.0 million for costs incurred by local governments prior to FY 2004-05. The Auditor-Controller estimates that based on ongoing State audits, **the current deferral of mandate payments would result in an estimated County loss of $12.9 million, and based on information available, the suspension of State mandates would result in a net County cost loss of approximately $5.8 million.**

The May Revision also includes a policy proposal to fund law enforcement mandates with State General Fund dollars rather than being included in the Governor's Realignment Proposal. These mandates include: peace officer protections; domestic violence arrest policies; victim assistance and treatment services; child education and recovery services; and civil commitment procedures for sexually violent predators.

Military and Veterans Programs. The May Revision retains the Governor's January Budget proposal to eliminate State support for County Veterans Services Offices (CVSOs) and Operation Welcome Home for savings of $9.9 million. CVSOs assist veterans in receiving Federal benefits. Operation Welcome Home provides services, such as job placement, housing, health care and assistance with the transition into civilian life for veterans returning from the wars in Iraq and Afghanistan. Additionally, the department would be impacted as follows: 1) elimination of five Veteran Benefit Counselors and one Intermediate Typist Clerk; 2) increasing the County-wide ratio of veterans to counselor from 23,500:1 to 36,000:1; 3) loss of Federal funding due to unfiled veteran compensation claims; 4) closing the College-Fee Waiver Program; 5) closing the Section 8 Housing Program; and 6) reductions to veteran outreach programs. **The Department of Military and Veterans Affairs indicates that this proposal would result in an estimated net County cost loss of $360,000 for services to veterans and a potential loss of $60,000 in Proposition 63 funding to provide mental health services for veterans.**

Public Library Funds. The May Revision proposes a decrease in the reduction in State General Fund support for local libraries from $30.4 million to $15.2 million and restores $15.2 million in funding for the Public Library Foundation, California Library Literacy and English Acquisition Services, and the California Library Services Act. **Based on updated estimates, the Public Library indicates that this proposal would result in an estimated net County cost loss of approximately $1.0 million which is used to purchase books and other library materials.**

Disposition of Properties with No State Programmatic Need. The May Revision proposes to improve the State's asset management by selling nonessential or under-utilized State properties that serve no State programmatic need. **Initial properties intended for sale include the Los Angeles Memorial Coliseum and the Ramirez Canyon property located in Malibu**. According to the Governor, savings from this proposal would be included in the FY 2012-13 Governor's January Budget. The Natural History Museum indicates that without further details on the proposal to sell the Los Angeles Coliseum, the County impact cannot be determined at this time. **The Chief Executive Office (CEO) will work with the affected County departments to fully determine the impact of this proposal when further details are released by the Administration.**

Exposition Park/California Science Center. The May Revision proposes a decrease in the reduction to the California Science Center from $3.7 million to $1.7 million and includes a transfer of $850,000 from the Exposition Park Improvement Fund. The additional $850,000 would bring the total annual shift to over $2.5 million. The Natural

History Museum (NHM) indicates that it is supportive of the reduction in the State General Fund cut for the California Science Center which is located in Exposition Park. However, NHM indicates that the proposal for a further diversion from the Exposition Park Improvement Fund may have an indirect negative impact on the department.

While there are no details about the specifics of how the $850,000 non-State General Fund transfer would be implemented, NHM indicates it is likely that the Legislature's proposal to eliminate the Office of Exposition Park Management, which is responsible for park maintenance and park revenue-raising, and the proposal to increase parking rates in Exposition Park in order for the California Science Center to remain admission free, are still under active consideration. **The CEO will work with NHM to fully determine the impact of this proposal when further details are released by the Administration.**

Economic Development

Redevelopment Agencies. The May Revision retains the Governor's January Budget proposal to eliminate Redevelopment Agencies (RDAs) by prohibiting additional contract obligations, retiring existing RDA indebtedness and reallocating property tax increment revenues to schools, cities, counties, and non-enterprise special districts. According to the Governor, redevelopment cost the State more than $2.0 billion annually in lost school property taxes.

In FY 2011-12, the proposal would shift an estimated $5.2 billion in property tax increment revenues, including: $2.2 billion to retire RDA debts and contractual obligations in accordance with existing payment schedules; $1.1 billion to agencies based upon negotiated agreements and State statute (as an amount equal to the pass-through payments that would otherwise be received); $1.7 billion to offset State General Fund costs for Medi-Cal ($840.0 million) and trial courts ($860.0 million); and $210.0 million to cities, counties, and special districts proportionate to their current share of the countywide property tax allocation.

In FY 2012-13 and thereafter, the estimated non-obligated portion of the RDA tax increment (revenue not needed for outstanding debt and contractual obligations) would flow instead to K-14 schools ($1.0 billion), cities ($490.0 million), counties ($290.0 million), and non-enterprise special districts ($100.0 million). The Governor also proposes a new option for funding economic development at the local level by calling for a constitutional amendment to provide for 55.0 percent voter approval for limited tax increases and bonding against local revenues for development projects similar to those currently funded through redevelopment.

The Chief Executive Office Operations Cluster estimates that the reallocation of $210.0 million in FY 2011-12 to cities, counties and special districts, would result in approximately $52.5 million for all taxing entities in the County and about $15.0 million to $21.0 million for the County General Fund in FY 2011-12. The CEO indicates that there is not enough detail in the proposal to estimate future property taxes for the 315 redevelopment project areas within the County. However, in FY 2009-10, the loss to community redevelopment agencies (net of pass-through payments) was $530.8 million, including $452.7 million to the County General Fund; $51.3 million to the Fire District; $18.3 million to Flood Districts; and $8.5 million to the Public Library. In general, the proposal to divert tax increment from RDAs to the local taxing entities would significantly benefit the County General Fund, Fire, Flood and Public Library Districts.

The Community Development Commission (CDC) estimates that this proposal would eliminate the RDA for Los Angeles County and result in a loss of approximately $3.7 million in FY 2011-12, including $2.9 million in property tax increment which must be used for redevelopment purposes and $824,840 in property tax increment that is required to be spent on low- and moderate-income housing within the County's existing redevelopment project areas. The CDC also indicates the proposal would result in the loss of the tax increment and low- and moderate-income housing funds that funds the City of Industry program, which was estimated to provide $100.0 million in low- and moderate-income housing funds for use within the County over the next six years.

Enterprise Zones. The May Revision proposes to reform, rather than eliminate, Enterprise Zones hiring tax credit by giving credit to firms which actually increase their level of employment. Taxpayers would be eligible for the credit for each new full time employee they hire. The taxpayer would be unable to claim any new vouchers for tax years prior to 2011, known as retroactive vouchering, and the credits would be limited to a five-year carry-forward period. These program reforms are estimated to generate additional revenues of $23.0 million in FY 2010-11 and $70.0 million in FY 2011-12 million to the State.

The Community Development Commission indicates that the purpose of the State Enterprise Zone program is to encourage investment and employment opportunities in low- and moderate-income areas of the State. Enterprise Zones are established through a competitive process, and the neediest areas with the best plans for improvement received designation. According to the CDC, the proposal would restrict tax credits to firms that increase their level of employment, and fails to recognize that job retention for struggling firms is also a worthwhile goal. Moreover, the proposed credit would be reduced from more than $37,000 over five years to $5,000 in one year for each full-time equivalent employee that they hire. The CDC indicates that this proposal would negatively impact the County's East Los Angeles, Harbor Gateway Communities and Santa Clarita Valley Enterprise Zones and the zones in the Cities of Lancaster/Palmdale, Santa Clarita, Pasadena, Los Angeles, South Gate/Lynwood, Compton, Long Beach and a conditional zone in Huntington Park.

Housing Bonds. The May Revision withdraws the Governor's January Budget Proposal that would have restricted the California Department of Housing and Community Development (CDHCD) from making new awards for bond programs with continuous appropriation authority, allowing CDHCD to approve pending and upcoming awards. The proposal also would increase Proposition 1C bond funds by $63.0 million in FY 2011-12, which includes $18.0 million for Transit-Oriented development and $25.0 million for Housing Urban-Suburban-and-Rural Parks Program.

The Community Development Commission indicates that this proposal would eliminate the potential disruption that a pause in the issuance of State bonds would have had on new projects reliant upon State subsidy as part of their financing mechanism. According to the CDC, the proposal also would allow it to continue to successfully address the lack of affordable housing in the County.

Environment and Natural Resources

Department of Food and Agriculture Baseline Reduction. The May Revision retains the Governor's January Budget proposal to reduce the State General Fund by $15.0 million for the California Department of Food and Agriculture (CDFA). **According to the Agricultural Commissioner/Weights and Measures (ACWM), this reduction would result in an estimated net County cost loss of $500,000 due to the repeal of AB 1896 of 2004, which requires the ACWM to staff year-round programs that are under an agreement with CDFA with permanent employees, and a reduction to the High Risk Pest Exclusion funding. The ACWM is continuing to work with the CDFA to minimize the impact to the County.**

State Parks Reduction. The May Revision proposes no new reduction proposals for the California Department of Parks and Recreation (CDPR) beyond the State General Fund reduction of $11.0 million in FY 2011-12 and $22.0 million in ongoing savings.

On May 13, 2011, CDPR issued a list of State parks to be closed as a direct result of the State Budget cuts proposed by the Governor and passed by the Legislature in March 2011. The list contains 70 parks to be closed which is approximately 25.0 percent of the entire State Park System of 278 State parks. CDPR indicates that the State park closures are necessary to achieve the reductions in the budget year and in FY 2012-13. According to CDPR, the closure of 70 State parks will retain at least 92.0 percent of statewide attendance, preserve 94.0 percent of existing revenues and keep 208 State parks open to the public.

Five of the 70 State park units operated by CDPR scheduled to close are located in Los Angeles County. The affected State parks are: 1) Antelope Valley Indian Museum; 2) Los Encinos State Historic Park; 3) Pio Pico State Historic Park; 4) Saddleback Butte State Park; and 5) Santa Susana Pass State Historic Park. The Departments of Beaches and Harbors and Parks and Recreation indicate that the closure of State park units operated by CDPR may have an undetermined indirect impact on County-operated park and beach facilities and may result in increased attendance at these County facilities.